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Bizjet Makers Downsize Despite Rebound in Private Air Travel

Business jet flight activity is recovering smartly while scheduled airline flights remain comatose as well-heeled travelers look for alternatives to the isolation ward of public air travel. FlightAware reports that for the week of June 14-21 the number of private flights were off just 17% compared to the same period last year, whereas airlines were still down a pummeling 69%. In fact, on June 20th bizjet travel was 2.5% *above* the same day last year.

Private charter flight inquiries are ringing off the hook, and jet card sales, essentially debit cards of charter hours, are selling like crazy. Giddy private aircraft charter outfits report a brisk business, with upwards of 50% of sales going to first-time users.

To boot, current aircraft owners are holding onto their jets, causing the number of used jets for sale on the market to barely budge since the start of the pandemic. This comes on the heels of new business jet deliveries that shot up 15% in 2019.

Private flying suddenly seems to be a hot commodity, and it would seem appropriate to turn up the production wick on new, spiffy planes. Instead, and rather counter-intuitively, business jet makers have been laying off workers. Not just a few here and there, but by the thousands.

Bombardier cut loose 2,500 employees and General Dynamics' Gulfstream made 1,145 disappear since October. Amid widespread furloughs, Textron Aviation's Cessna unit recently cut 250 with the possibility of more on the way. Other majors have also made cuts, but in a stealthier manner. There are suggestions that there could be more.

To help explain this juxtaposition of layoffs despite activity, it's important to first understand that the jump in 2019 new jet deliveries was something of a head fake. Manufacturers often build and stockpile new model entrants even before they're certified by authorities resulting in a big slug of initial deliveries to early customers. 2019 saw a spike in the approval of several new models which opened up these one-time floodgates. Another factor was a bumper year of deliveries for the tiniest, single-engine jets tracked by industry bean counters, which further distorted the real health of the traditional market.

Next, buying and caring for a personal aircraft is a multimillion-dollar proposition, which limits the potential buyer base, and many of those with the financial will and wherewithal already own a jet. Some will perhaps now try ownership to skip the airport crowds, but not enough to meaningfully move the new jet sales needle. Repeat buyers will wait for some of the economic uncertainty to subside before risking capital.

We're not going run out of charter or fractional program jets in the near term to warrant fleet expansion. These assets have been underutilized for years and any near-term demand will be easily absorbed by the existing fleet without having to place orders for any new jets.

Many of the firms that provide aircraft charters don't even own the aircraft themselves. Instead, they borrow the aircraft from the real owners who want to make their jet available to others when they're not using it to earn extra income. Thus, even a permanent spike in charter usage wouldn't result in aircraft orders from charter providers.

It's likely that only a few of those who try charter will remain once the public travel hysteria is over and they once again board the back of the airliner. Feedback from fractional providers is that newbies aren't buying jet fractional shares, but rather a jet card, which is simply prepaid charter and is indicative of a more short-term commitment. They won't increase their fleet size with new jets until after it's seen whether new fliers stick with private travel after a vaccine becomes available.

There's also the cost side of the equation. Production lines have been curtailed or closed for up to 3 months, robbing jet builders of their normal cash received when delivering finished planes to end customers. Potential new buyers are remaining cautious in this environment, resulting in OEMs not even having a buyer for all of their planned 2020 jet production, which could result in being stuck with unsold, high holding cost "white tails" at year-end. Executive compensation based on stock price further numbs employee retention motivation.

The only near-term beneficiaries will be the charter providers, and that could be short-lived once a vaccine gives an all-clear signal to return to public travel. This increased activity won't necessarily be a financial bonanza since the charter industry is just coming off of a couple months of an almost complete ground stop like the airlines and still need time to fiscally recover themselves. With a lot of competition in the charter industry, there's historically been a lack of pricing discipline, which could further hobble margins even in an improved climate.

There will inevitably be some new jet sales uplift from lasting concerns over traveling in large groups, but that will take a while to materialize. Increased charter and fractional usage must continue into next year before new orders are placed, and traditional buyers must first recover from their own financial situation and have confidence in the future. The recent surge in private air travel popularity hasn't yet translated into jet sales for business jet manufacturers who may continue to trim the workforce until order books show sustained growth over consecutive quarters.

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